



# STONEHAM SAVINGS BANK

THE COMMUNITY CHOICE SINCE 1855

MARK E. FOLEY

Senior Vice President  
Commercial Lending

March 7, 2006

Robert E. Feldman, Executive Secretary  
Attention: Comments, Federal Deposit Insurance Corporation  
550 17<sup>th</sup> Street, NW  
Washington, DC 20429

Re: Concentrations in Commercial Real Estate Lending,  
Sound Risk Management Practices

Dear Mr. Feldman:

As a community banker employed by a 150 year old institution, I am pleased to have the opportunity to comment on the proposed guidance entitled Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices. While I understand that the federal regulatory agencies have expressed concern with the high concentrations of commercial real estate loans at some institutions, I believe the proposed guidance will have a serious impact on community banks like Stoneham Savings Bank and local borrowers as well.

Commercial real estate lending is an important business line for Stoneham Savings Bank as I'm sure it is at other smaller to medium sized local community banks as well. Banks with assets of less than one billion dollars contribute in a major way to promoting local growth in a sound and safe manner. During a recent regulatory exam, our bank was complimented on its underwriting procedures as well as enforcing borrower equity requirements. I truly believe that the ultimate mitigator in risk management is to both know your customer and understand that customer's financial commitment to the specific project at hand. The proposed guidance will place a significant regulatory burden on banks that have a market niche in commercial real estate lending, limiting an institution's future growth in this area and possibly forcing some banks out of the market altogether.

I am particularly concerned with the "one-size-fits-all" nature of the proposed guidance. Institutions are automatically classified as having a "CRE concentration" simply if they exceed the thresholds. Portfolio diversification or other risk mitigation procedures are not taken into consideration. Stoneham Savings Bank knows and understands its market area well supported by an experienced, knowledgeable, and seasoned lending staff. We take great care in monitoring all developmental projects that includes regular reporting to the Bank's Board of Trustees. Projects are tracked by geographic area, percentage of completion, including direct and committed utilization, etc. This process works very well and again was favorably recognized during the last FDIC Safety and Soundness Examination.

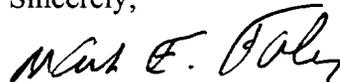
Mr. Robert E. Feldman  
March 7, 2006  
Page 2 of 2

The guidance encourages institutions to adopt a series of the proposed risk management principles if a CRE concentration exists. Banks like us currently have procedures in place that are cost effective. For others banks, overall costs may be prohibitive and result in an exit from the CRE business altogether. Additionally the stress testing of a large bank's portfolio might result in quantitative/qualitative results, however, in a small institution, such simulations rarely work well for obvious reasons. Forcing banks to reduce or abandon CRE lending in certain market areas could restrict community development initiatives in greatly needed areas.

In addition, the guidance recommends increased capital levels for banks with CRE concentrations. This requirement will place a serious burden on mutual institutions like us, which represent 70 percent of the banks in Massachusetts and who rely on earnings as their sole source of new capital. I need not remind you that banks like Stoneham Savings Bank already set aside capital in loan loss reserves that for our bank, as of 12/31/05, represented an allowance for loan losses at 170.29% against non-performing assets. Enforcing greater capital requirements could cause banks like us to reduce levels of strong earning assets in commercial real estate during a period of significantly reduced margins.

Thanks very much for the opportunity to register my opinion and concerns regarding this matter.

Sincerely,



Mark E. Foley  
Senior Vice President &  
Chief Lending Officer

STONEHAM SAVINGS BANK



1855-2005 Our 150th Anniversary